Joint Legislative Audit and Review Commission

2000 Fiscal Impact Review

Bill Number: HB477 as Introduced
Review Requested By: Delegate Parrish
Chairman of: House Finance

Concur	Concur with Reservations	x Non-Concur
JLARC Staff concur with the fiscal impact statement referred for review	With the reservations noted below, JLARC staff concur with the fiscal impact statement referred for review	As noted below, JLARC staff do not concur with the fiscal impact statement referred for review.

Bill Summary

HB 477 deletes the term "primary" in Section 58.1-4022E of the Code of Virginia so that no funds shall be spent for the purpose of inducing individuals to play the lottery.

Fiscal Implications

FUND SOURCE	DOLLARS	POSITIONS
FY 2001		
General Fund	$19,000,000	0.00
Non General Fund	$0	0.00
FY 2002		
General Fund	$37,900,000	0.00
Non General Fund	$0	0.00
FY 2003		
General Fund	$37,900,000	0.00
Non General Fund	$0	0.00
Cumulative		
General Fund	$94,800,000	0.00
Non General Fund	$0	0.00
TOTAL	**$94,800,000**	**0.00**

JLARC staff do not concur with the Lottery Department's Fiscal Impact Statement for HB 477. The JLARC staff estimate of the cost to the general fund is $19,000,000 in FY 2001 and $37,900,000 in FY 2002. The Lottery Department estimates a cost of $37,900,000 in each of FY 2001 and FY 2002. The difference in estimates for FY 2001 is due to JLARC's assumption that there would be a phased-in effect from the termination of media advertising.

HB 477 does not prohibit the Lottery from using media advertising techniques, such as billboards, television and radio ads, and advertisements at points of sale. However, removing the word "primary" from Section 58.1-4022E of the Code of Virginia would prohibit the Lottery from using advertisements that induce persons to participate in the Lottery. The Director of the Lottery has stated that all media advertisements will be discontinued if HB 477 becomes law, as any media advertisement could be considered as inducing persons to participate.

JLARC staff based revised estimates on the Lottery Director's stated intention. (Were the Lottery to scale back rather than completely eliminate all media advertising, the reductions estimated in this fiscal impact review would be less.) Discussions with several different state lotteries and national lottery organizations indicated general agreement that a cut in advertising does reduce lottery sales, although the full effect is not realized in the first year.

JLARC staff agree that the revenue loss could eventually reach $37,900,000, but have determined that the first-year loss would be less due to a phasing-out effect. The Lottery Department's revenue reduction estimates are based on an estimated 8.1:1 return on lottery sales as a result of advertising. In other words, every $1 spent on advertising yields $8.10 in lottery sales. This would result in a loss in total sales of $111,340,000 and a loss in transfers to the general fund of $37,900,000.

JLARC staff agree that an eventual annual loss of $37,900,000 is a reasonable estimate. Based on the experience of other state lotteries that have significantly reduced their advertising, the full effect of the revenue loss generally does not occur until the second year. Other states that have experienced significant reductions in advertising indicate that lottery sales begin to decline about six months after advertising cuts occur. This is, in part, because individuals continue to remember the lottery's last advertisements. Based on this information, JLARC staff estimate the revenue loss to be about half a full year's loss, or $19 million, in the first year.

Although a return of 8.1:1 from advertising is within the range reported by other states, varying this assumption could significantly change the revenue impact. The 8.1:1 ratio is based on a survey of six states conducted in 1995, and is the average of the ratios reported. Ratios reported in the survey varied from 3:1 to 14:1. A variety of factors impact these ratios, such as the cost of advertising, the effectiveness and type of advertising, etc.

Virginia Lottery staff indicated that they have not calculated an advertising return ratio specific to Virginia, which is why the survey's average was used. If the lowest ratio of 3:1 were used, a revenue loss of approximately $7 million would be likely the first year, and $14 million the second year. A ratio of 14:1 would result in a revenue loss of approximately $32 million the first year and $65 million the second year.

Budget Amendment Necessary

Section 3-1.01G (Transfers) - Reduce amount for transfer to the general fund by $19,000,000 in FY 2001 and $37,900,000 in FY 2002.

Item 144 (Direct aid to public education) - Reduce financial assistance for lottery proceeds, revenue sharing by $19,000,000 in FY 2001 and $37,900,000 in FY 2002.

Agencies Affected

Direct Aid to Public Education; Lottery Department - State

Date Released, Prepared By: 01/28/2000**;** Kimberly Maluski